

**City of Austin Affordable Housing Forum:
Affordable Housing and Property Taxes
Meeting Notes**

Wednesday, October 22, 2008

9:00 a.m. - 10:30 a.m.

Austin City Hall, 301 W. 2nd St., Council Chambers

74 attendees

Welcome and Introductions

- Margaret Shaw, Director, Neighborhood Housing and Community Development Office, City of Austin

Presenters

- Patrick Brown, Chief Appraiser, Travis Central Appraisal District
- Denise Pierce, Exemptions Administrator, Travis Central Appraisal District

Patrick Brown is the Chief Appraiser for the Travis Central Appraisal District (TCAD), overseeing the daily operations of the appraisal district. Prior to assuming this position in 2007, he served as the Deputy Chief Appraiser for the Williamson Central Appraisal District from 2004 to 2007 and the Director of Appraisal & GIS for the Lubbock Central Appraisal District from 2002 to 2004. Mr. Brown has more than 20 years experience in real estate including seven years as a Travis County appraiser.

Mr. Brown has a Master of Business Administration with a concentration in Real Estate from the University of Texas at Austin, and a Bachelor of Business Administration in Real Estate and Finance with Honors from the University of Texas at Austin. He graduated from L.C. Anderson High School in Austin, Texas.

Remarks

- I. Overview of Travis County Appraisal District & Valuation Process (Patrick Brown)
 - A. TCAD works on the basis of four apartment classifications: 5-25 units, 26-49 units, 50-100 units, and more than 100 units. There are also four apartment classes: A, B, C and D. Apartments are valued according to their class. Apartments in Travis County represent approximately \$7 billion in real estate (about 7% of the tax rolls).
 - B. Valuation of Affordable Housing
 - i. Typically TCAD will utilize the income approach—potential for income (rent – vacancy + collection) – operating expenses. Compare to sales rate.
 - ii. There are also restrictions based on specific property types. For instance, TCAD is required to appraise tax credit properties 25% less due to the income restrictions.
- II. Tax Exemptions (Denise Pierce)
 - A. The Community Housing Development Organization (CHDO) tax exemption law enacted on January 1, 2004, changed the CHDO tax exemption from 100% to 50%.

- B. On January 1, 2008, the law was revised so that the exemption would be based on the use of the property. If the property is used for rental units for low-income individuals, it receives a 50% exemption. If the property is developed in order to provide homeownership for low-income individuals, it receives a 100% exemption.
- C. The CHDO exemption application includes qualifications both for the property and for the owner of the property. For example, the application requests information on the makeup of the board of directors of the organization—a specific percentage of the board must be from low-moderate income neighborhoods.
- D. Organizations submitting an application for a CHDO exemption are asked to submit as much detailed information as possible in order to make the correct determination.

Questions

1. *How does the zoning of the property affect its appraisal? (especially if the property is being “up-zoned”)*

Patrick Brown: When we appraise anything, it’s based on the “highest and best use” of the land within the limits of three caveats: 1) physically possible, 2) legally permissible, and 3) financially feasible. So yes, increasing allowable density will generally increase appraisal values because it will increase the developer’s buildable square feet, but an appraisal increase is dependent on the three caveats above (e.g. perhaps not during an economic downturn because the development is not financially feasible).

2. *What about affordable housing developments that aren’t tax credit deals (e.g. private activity bonds)? How are they valued?*

Patrick Brown: Generally, we look at the market rent or whatever rent is charged for the property. If available, sales prices from comparable complexes are also used.

3. *Do you know how much money is taken off the tax roles due to the exemptions given to government entities and CHDOs?*

Denise Pierce: There are approximately 400 TCAD properties that receive the 100% tax exemption, and approximately 15 properties receiving the 50% tax exemption.

4. *How do you address the disparity when single-family homes have received a CHDO exemption but they are still being appraised at market value?*

Patrick Brown: The tax code requires us to appraise the properties “the way they are most commonly valued,” that is, using the sales comparison approach for single-family rental properties. This sometimes leads to disparities between single-family and multi-family properties. Code 23.102 states that the “income method of appraisal” should be the most commonly-used method.

5. *How do you appraise mixed-use projects such as Vertical Mixed Use with ground floor retail, office space and housing?*

Patrick Brown: We would look at what properties similar to the separate portions of the property are selling for and value them accordingly. We would also look at sales data if available.

6. Will taxes increase for properties in neighborhoods near transit-oriented developments?

Patrick Brown: TCAD doesn't increase taxes—our charge is solely to determine the market value of properties. All Appraisal Districts must meet standards set by the state Comptroller's office. Rather than changing appraised values immediately based on zoning changes, TCAD waits for comparable sales data to determine what the market value of the properties within the transit-oriented districts will be. A transit-oriented development could potentially increase or decrease property values. It takes time to understand some of the appraisal issues involved in new types of development (e.g. mixed-use, transit-oriented developments). For instance there have been some discrepancies in the Mueller neighborhood that they are working on.

7. There is an effort to support garage apartments and alley flats as a means to create more affordable housing in single-family neighborhoods. Do we need a change in the tax code to address the issue of when a family rents to a low-income individual living in an alley flat? How would a property such as that be appraised?

Patrick Brown: In this instance a “split” would be necessary to create two accounts for the property owner—one for the homestead and one for the rental property. In order to establish restricted rents on the garage apartment in perpetuity, a deed restriction would be required.

8. What if the City or a housing authority owns the land, but a private entity owns the building? Does the entire property receive a 100% exemption?

Denise Pierce: Yes, if all documentation is fully submitted.

9. How do you exempt and value Community Land Trusts?

Denise Pierce: The state puts land banks under the “charitable organization” tax exemption status. That designation would switch to the low-income housing exemption when the property is sold.

10. Can you define the “equitable owner” term used in recent TX Supreme Court proceedings on CHDO exemptions.

Denise Pierce: It is difficult to define because the definition tends to be variable depending on who is using it.

Patrick Brown: It depends on whether the owner is a General Partner or Limited Partner status.

11. Would revisions to the current CHDO legislation be beneficial?

Patrick Brown: Appraisal caps are an issue that may come before the Legislature in 2009. The current cap for homesteads is 10% per year. There has been discussion about reducing the homestead exemption to 5% and/or introducing a 10% cap on commercial properties. There is a perception that the homestead exemption simply shifts the tax burden to non-residential properties. In California they have a 2% cap, which has led to some properties being significantly undervalued. There have also been proposals in the Texas Legislature to introduce a “circuit breaker” that ties property taxes to individual’s ability to pay.

12. What is the proportion of residential/commercial properties in TCAD?

Patrick Brown: Roughly 55% residential, 10% personal property, and 35% commercial.

13. Why are only 15 properties in Travis County receiving the new 50% exemptions?

Denise Pierce: It is unclear, but in my opinion it is because it is more burdensome to get the exemption now and because the 50% exemption has less benefit than the previous 100% exemption.